B5350-2 12/14/82

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, DECEMBER 13, 1982 VOLUME XIX, NUMBER 50

Productivity Gains Are . . .

Overlooked in the barrage of gloomy economic indicators released these days by Washington are two very welcome bits of good news. Productivity in the private business sector improved for the second quarter in a row. Corporate after-tax profits have also been increasing since the first quarter of 1982, despite sluggish sales, drastic cuts in production and a significant reduction in the rate of inflation.

Productivity rose at a seasonally adjusted annual rate of 4.2 per cent during the July-September period, compared with the previous quarter. Output per hour traditionally rises toward the end of recessions or during early stages of recovery—as businessmen speed up production lines before they start rehiring employees—but last quarter's gain was, with only one exception, the largest in any recession since 1950.

This improvement is likely to have a favorable impact on many related economic indicators. It has already contributed to the decline in the rate of inflation in general and the underlying or "core" rate of inflation (the annual rise in labor and capital costs) in particular. As a result, the buying power of those currently working has improved and the erosion of purchasing power of those living on fixed incomes or savings has slowed.

Similarly, the rise in productivity played a major role in last quarter's improvement in corporate profits. It offset—at least partially—the rise in labor costs, which on average represent more than two-thirds of companies' expenses. Thus, after-tax profits increased at a seasonally adjusted $2.8 billion rate in the third quarter, following a $1.3 billion rise in the previous quarter. In addition, there were other contributors to the rise in profits. They included lower financing costs, reduced pay and/or benefits and a tight rein on expenses by most companies.

. . . A Mixed Blessing

But while this increased labor efficiency may be good news for corporate balance sheets, it is not such good news for those looking for jobs. In the last two quarters, many companies were able to expand output while cutting their labor force.

But while the ranks of the unemployed swelled again last month, the employment picture did not deteriorate as much as it did in October. Most important, well over one-half of November's jobless rise was due to persons reentering the labor force—some seeking work just for the holidays. However, in view of the weak economy, most did not find jobs. Most of the decline in employment took place in the wholesale and retail sector, which traditionally hires the highest number of seasonal employees at this time of the year. If the labor force had remained the same, the jobless rate would have risen just 0.1 per cent to 10.5 per cent of the labor force.

Nevertheless, the dismal employment picture and the uncertainty regarding job prospects and security of many consumers have taken away much from the holiday spending spirit. Joblessness has touched more people than just those who are currently unemployed. In the past year, at least one out of five Americans has been unemployed for an average of 16 weeks. As a result of the depressed consumer spirits, retail sales for November—the month which marks the beginning of the Christmas selling season—were disappointing, rising only 0.5 per cent, excluding automobiles.

Interestingly, Christmas shopping has become a game of who can outwait whom. Consumers are delaying their purchases, hoping that if they wait long enough, hard-pressed merchants will have to give even deeper discounts. So, while retailers have been stretching out the Christmas promotion season—this year it began well before Thanksgiving—with every year the last minute shopping rush starts later, making the actual buying season shorter and shorter. Moreover, the drop in the rate of inflation has also taken away the incentive to spend. While as recently as two years ago, people had the attitude of "buy now, before prices go up"; now they wait for sales, turning to discount stores, off-price stores, thrift shops, factory outlets, flea markets and street vendors in search for bargains.

But there may be some hope for retail sales in the near future. According to the Conference Board, for the first time in four months, consumer confidence improved—albeit slightly—as people became a little

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more optimistic about their economic future. A larger number than in October expressed interest in buying cars, homes, major appliances and home furnishings, saying that they may buy in the next six months. This renewed optimism may have come just in time; the sooner consumers loosen their purse strings, the sooner they will lead the nation out of recession.

GNP Slips As Exports Stumble

As long as the dollar remains significantly overvalued against other major trading currencies, it is unlikely that the U.S. economy will receive any help from the export sector. In fact, a large portion of the recent decline in the real GNP is attributable to plunging U.S. exports. For example, from the second quarter of 1981 (just before the beginning of the present recession) to the end of the third quarter of this year, while U.S. GNP fell in real terms by almost $24 billion, U.S. real net exports fell by almost $19 billion. Thus, over 77 per cent of the decline in real net GNP was due to the fall in real exports, although they normally account for only about three per cent of GNP.

At the end of June, 1981, the trade-weighted value of the dollar was two per cent above its value in December, 1971, when the Smithsonian Agreement was reached. By September, 1982, the dollar was about 13½ per cent above the Smithsonian level. Over the past several weeks, the dollar has retreated from the record levels it reached in early November

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/1/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	144.632	– .512	+ 9.161
Loans to Depository Inst.	.623	+ .156	+ .309
Float	3.442	+ 1.117	– .694
Total Reserve Bank Credit	157.671	+ .812	+ 7.450
Treasury Deposits with Federal Reserve Banks	3.255	+ .384	+ .227
Currency Outside Banks	135.210	– .467	+ 8.768
Member Bank Reserves:			
Required	41.361	+ .503	+ .128
Excess (Deficiency)	.561	+ .249	+ .155
Total Reserves Held	41.922	+ .752	+ .283
Net Free Reserves	.158	+ .081	– .100
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	103.318	– .223	+ 7.264

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	476.0	+ 17.1‡	+ 8.7‡
M2 (November '82)	1,986.1	+ 8.2	+ 9.7
M3 (November '82)	2,399.1	+ 7.3	+ 10.3
L (August '82)	2,858.9	+ 12.2	+ 11.7

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 12/10/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.30%	7.70%	8.00%
* Federal Agencies	8.05	8.50	9.75
* Project Notes—Taxfree (46% Taxable Equivalent)	7.87	9.07	9.72
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.75	8.90	9.38

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.63%	Jan.	8.60%
15- 29 days	8.63	Feb.	8.60
30- 59 days	8.63	Mar.	8.70
60- 89 days	8.50	Apr.	8.75
90-179 days	8.50	May	8.80
180-239 days	8.50	Jun.	8.70
240-270 days	8.50		
‡Industrial Paper—Prime			
30- 89 days	8.63%	†Federal Funds Effective Rate	8.80%
90-120 days	8.63		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'82	$ 3,081	$ 3,045	$ 2,981
Gross National Product (1972 Dollars)*	3rd Q'82	$ 1,478	$ 1,478	$ 1,510
Percent Change, Annual Rate	3rd Q'82	0.0	2.1	2.2
Change in Consumer Prices (all urban consumers)*	Oct '82	6.0%	2.4%	4.8%
Change in Producer Prices*	Nov '82n	7.2%	6.0%	6.0%
Civilian Employment (Thousands of Persons)†	Nov '82	99,032	99,093	100,172
Unemployment as % of Civilian Labor Force†	Nov '82	10.8%	10.4%	8.3%
Personal Income*	Oct '82	$ 2,621	$ 2,602	$ 2,487
Leading Indicators Composite Index (1967=100)†	Oct '82	131.4	131.1	128.3
Industrial Production Index (1967=100) †	Oct '82	136.3	137.4	149.1
Net Change in Consumer Installment Credit†	Oct '82n	–$ 0.32	$ 1.09	$ 1.00
U.S. Merchandise Trade Balance †	Oct '82	–$ 5.33	–$ 4.19	–$ 5.03
Plant and Equipment Expenditures*	1st Q'83n	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Oct '82	1,122	1,111	854
New Construction Expenditures*	Oct '82	$ 234.9	$ 232.4	$ 230.8
Total Business Inventories†	Sep '82	$ 515.3	$ 514.6	$ 515.3
Total Business Sales†	Sep '82	$ 338.4	$ 339.5	$ 353.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

in spite of the fact that the U.S. still enjoys a real interest rate advantage over most of the other major developed countries. However, psychological factors appear to be working against the dollar. Not only is the widely expected U.S. economic turnaround slow in coming and thus more interest rate cuts are anticipated, but plummeting U.S. exports and rising imports have produced a sharp rise in the U.S. trade deficit this year. Further, the recovery expected for next year will generate an import surge before a weaker dollar benefits U.S. exports. Hence, the U.S. merchandise trade deficit next year will probably be substantially larger than even this year's $30 to $35 billion—perhaps as much as $60 billion.

Almost every sector of U.S. exports has been hard-hit this year. Through October, U.S. merchandise exports were eight per cent below the same period in 1981. Agricultural exports, which in 1981 amounted to 19 per cent of total U.S. exports, were running almost 15 per cent below last year's level during the first ten months of 1982. Much of this decline in agricultural exports is due to exceptionally good harvests in many parts of the world this year as well as the existence of large holdover stocks. Capital goods, which is the largest single category of U.S. exports (36 per cent of U.S. exports in 1981), fell over eight per cent for the January-October period of 1982 compared with the same period in 1981. For their part, consumer goods declined over nine per cent in the first ten months of 1982 compared with the same period in 1981. M

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/24/82)	143,275	+ 1,467	+12,196
New York City (11/24/82)	37,657	+ 122	+ 4,523
Commercial Paper (11/24/82)	167,872	– 972	+ 1,246

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/24/82)	215,478	– 778	+25,103
New York City (11/24/82)	60,875	– 440	+ 5,843

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/24/82)	500,155	– 195	+35,929
New York City (11/24/82)	119,726	– 727	+ 7,896

Financial Markets

	Friday 12/10/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.20%	+ .08	– 3.00
180-Day Bills†	8.80	+ .07	– 3.40
Longest Bills	9.08	+ .08	– 3.52
Recent Issues:			
9⅞s 11/30/84	9.80	+ .12	
12¼s 9/30/86	10.45	+ .20	
10½s 11/15/92	10.58	+ .11	
10⅜s 11/15/12	10.58	+ .28	
Municipals:			
Bond Buyer–20 Bond Index* (12/9/82)	10.13%	– .10	– 2.76
Blue List Total ($ Million)	$1,415	–$ 109	– $ 44
30-Day Visible Supply ($ Million)	$2,084	–$1,982	– $344
Total	$3,499	–$2,091	– $388
Corporates:			
Moody's Aa Composite (12/9/82)	12.47%	– .01	– 2.37
30-Day Visible Supply ($ Million) ‡	$1,150	–$ 50	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,018.76	– 12.60	+ 132.25
Transportation	438.92	– 6.45	+ 47.81
Utilities	118.17	+ 1.43	+ 6.19
65 Stocks	399.73	– 3.94	+ 44.90
Standard and Poor's 500 Stocks	139.57	+ .88	+ 14.64
N.Y.S.E. Composite Index	80.49	+ .44	+ 8.06
N.Y.S.E. Avg. Daily Vol. for Week (000's)	94,054	+11,672	+ 48,266

* 46% Taxable equivalent 18.76%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/10/82	Week Ago
Overnight	9.00%	8.88%
1 month	9.38	9.19
3 month	9.63	9.44
6 month	9.81	9.63
1 year	10.06	10.00
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.25%	12.30%
Long Term (7 to 15 yrs.)	12.30	12.35

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/10/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02079	48.10
Canada	.8100	1.2345
Denmark	.1159	8.6300
France	.1441	6.9400
Germany	.4086	2.4473
Italy	.0007075	1413.40
Japan	.004098	244.00
Mexico	.007519	133.00
Netherlands	.3711	2.6950
Switzerland	.4805	2.0810
U.K.	1.6169	.6185

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